

## Message Text

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PAGE 01      SOFIA 02698 01 OF 02 220648Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-07 FRB-03 INR-07  
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01  
LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05 SS-15 STR-04  
CEA-01 PA-01 PRS-01 AGRE-00 /086 W  
----- 089114 /12

R 211435Z DEC 76  
FM AMEMBASSY SOFIA  
TO SECSTATE WASHDC 2156  
INFO AMEMBASSY BELGRADE  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE  
AMEMBASSY WARSAW  
USEC BRUSSELS 186  
USDOC WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 SOFIA 2698

E.O. 11652: NA  
TAGS: ECON, EEWT, EFIN, BU  
SUBJECT: MEETING WITH LUKANOV

REF: SOFIA 2574

1. SUMMARY. ACCORDING TO VICE PREMIER LUKANOV, BULGARIAN RECEIPTS FROM INVISIBLES ARE INCREASING FACTOR IN REDUCTION OF PAYMENTS DEFICIT DURING 1976. HE RECOMMENDED MACHINE TOOLS AND OTHER METAL PROCESSING EQUIPMENT AS THEME FOR PLOVDIV 1977. SILISTRA PROJECT ADVANCING AND US FIRMS WOULD PROBABLY GET PIECES OF THE ACTION, BUT AMERICAN FIRM WHICH HAS DONE ENGINEERING PLAN "WILL HAVE NO PRIVILEGED POSITION WHEN COMPETITIVE BIDDING BEGINS." LUKANOV SAID GOB UNDERTAKING COMPLETE REVIEW  
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PAGE 02      SOFIA 02698 01 OF 02 220648Z

OF BULGARIAN-AMERICAN ECONOMIC RELATIONS. PRESSING FOR MFN, HE HINTED BULGARIANS WOULD SETTLE BONDHOLDER CLAIMS ONLY WHEN THERE ARE "FIRMER PROSPECTS FOR SIGNIFICANT IMPROVEMENT OF OVERALL RELATIONS" BUT WAS PERSUADED THAT IT WOULD BE A POLITICAL MISTAKE FOR BULGARIA TO DELAY THE NEGOTIATIONS. END SUMMARY.

2. AMBASSADOR MET WITH DEPUTY PRIME MINISTER ANDREI LUKANOV DEC 20 FOR GENERAL REVIEW OF ECONOMIC AND COMMERCIAL ISSUES INCLUDING BULGARIA'S 1976 TRADE AND PAYMENTS SITUATION, PRESENT STATE OF ECONOMY, PLOVDIV TRADE FAIR THEMES, STATE-OF-PLAY ON SILISTRA, PROSPECTS FOR MORE AMERICAN BUSINESS, AND SETTLEMENT OF BULGARIAN BONDS QUESTION.

3. TRADE AND PAYMENTS. FOLLOWING UP ON OUR PROBING OF THE SAME SUBJECT WITH DIRECTOR OF FOREIGN TRADE BANK (REFTEL), AMB NOTED BULGARIA'S 1975 HARD-CURRENCY TRADE DEFICIT AND RECALLED LUKANOV'S COMMENT DURING PREVIOUS MEETING LAST AUGUST THAT ACTUAL DEFICIT WAS LOWER SINCE TRADE STATISTICS DID NOT REFLECT INVISIBLES. AMBASSADOR INQUIRED HOW BALANCE LOOKED FOR 1976 AT THIS POINT, PARTICULARLY WHEN INVISIBLES ARE TAKEN INTO ACCOUNT.

4. LUKANOV PRECEDED HIS RESPONSE WITH RITUAL STATEMENT THAT SUCH DATA ARE NOT GIVEN OUT BY THE BULGARIAN GOVT, BUT THEN LIFTED A SMALL CORNER OF THE VEIL BY ASSERTING THAT 1976 PERFORMANCE WAS "SEVERAL HUNDRED MILLION DOLLARS BETTER THAN LAST YEAR'S" (WHICH WOULD PUT OVERALL 1976 HARD CURRENCY DEFICIT IN THE LOW HUNDREDS OF MILLIONS). HE SAID BULGARIA COUNTED VERY MUCH ON INVISIBLES FROM SUCH SOURCES AS SHIPPING, TRUCKING AND TOURISM. RECEIPTS FROM INTERNATIONAL TRUCKING WERE UP SHARPLY, AND "WE ARE NOW ABLE TO PAY OFF CREDITS FOR LONG-HAUL TRUCKS WITHIN TWO YEARS". WHILE THE NUMBER OF WESTERN TOURISTS HAD BEEN DOWN SLIGHTLY IN 1976 THEIR EXPENDITURES HAD BEEN HIGHER, IN PART DUE TO NOV 1975 LEV REVALUATION.  
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PAGE 03      SOFIA 02698 01 OF 02 220648Z

5. STATISTICS FOR THIS YEAR WOULD SHOW, LUKANOV SAID, THAT EXPORTS TO WEST HAD INCREASED AND THAT POSITIVE BALANCE OF TRADE WITH DEVELOPING COUNTRIES HAD BEEN MAINTAINED. IN MEANTIME, GREATER SELECTIVITY HAD BEEN SHOWN IN HARD CURRENCY IMPORTS, "FANCY THINGS" HAD BEEN REDUCED, ESPECIALLY AFTER JULY PLENUM OF BCP.

6. RESPONDING TO AMBASSADOR'S COMMENT THAT IT WAS HARD TO SEE HOW BULGARIA COULD INCREASE INDUSTRIAL EXPORTS TO BOTH EAST AND WEST, LUKANOV MADE THE SURPRISING STATEMENT THAT ONE SECTOR IN WHICH EXPORTS HAD GONE DOWN IN 1976 WERE CONSUMER GOODS, IN LINE WITH THE FYP'S PROMISES FOR INCREASED DOMESTIC CONSUMPTION. ASKED HOW DEFICITS COULD THEN HAVE BEEN REDUCED SO MUCH, LUKANOV GAVE STANDARD ANSWER THAT "STREAMLINING AND UPGRADING" OF INDUSTRIES AND INCREASES IN EFFICIENCY -- PLUS INCREASED RECEIPTS FROM INVISIBLES -- HAD MADE ALL THIS POSSIBLE.

7. PLOVDIV 1977. STRESSING INTEREST OF US FIRMS IN CONTRIBUTING TO BULGARIAN ECONOMIC GROWTH, AMB ASKED LUKANOV'S SUGGESTIONS FOR THEMES FOR US PARTICIPATION IN 1977 TRADE FAIR. CITING FYP AND NOTING OFF-THE-CUFF NATURE OF HIS RESPONSE, LUKANOV MADE STRONG PITCH FOR MACHINE TOOLS AND OTHER METAL-WORKING MACHINERY AS GOB'S FIRST CHOICE, PARTICULARLY ITEMS INVOLVING NEW TECHNOLOGY (NUMERICAL CONTROLS AND PROCESSES OF WORKING METAL OTHER THAN BY CUTTING). ASKED ABOUT MATERIALS-HANDLING EQUIPMENT HE THOUGHT NEW DEVELOPMENTS WOULD HAVE SOME INTEREST BUT PROSPECTS FOR SALES WERE LESS THAN FOR MACHINE TOOLS DUE TO EFFECTIVE EUROPEAN COMPETITION. SIGNIFICANTLY, LUKANOV THOUGHT PROSPECTS WERE VERY GOOD FOR OFF-THE-STAND SALES OF LATE-MODEL METAL WORKING MACHINERY.

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PAGE 01      SOFIA 02698 02 OF 02 220652Z  
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LIMITED OFFICIAL USE SECTION 2 OF 2 SOFIA 2698

8. SILISTRA. AMB ASKED STATE OF GOB'S CONSIDERATION OF DRAFT MASTER PLAN FOR THIS MULTI-MILLION PROJECT SUBMITTED BY GLOBE IN OCTOBER. LUKANOV CALLED SUBMISSION "A USEFUL JOB" BUT SAID HE HAD IMPRESSION THAT GLOBE HAD BEEN "SCARED

OR TAKEN ABACK BY SCOPE OF JOB" AND "HAD NOT YET SUCCEEDED IN PRODUCING PLAN FOR ORGANIC, VERTICALLY AND HORIZONTALLY INTEGRATED SYSTEM." FOR INSTANCE GLOBE'S PROJECTED PRODUCTION ESTIMATES HAD BEEN TOO CONSERVATIVE. HOWEVER THEY HAD RECEIVED GOB'S PRELIMINARY COMMENTS IN GOOD SPIRIT AND WOULD SUBMIT REVISIONS BY JAN 1, AFTER WHICH THEY WOULD BE PAID. ALTHOUGH GLOBE WOULD HAVE NO PRIVILEGED POSITION WHEN COMPETITIVE PROCUREMENT BEGAN, GLOBE AND OTHER US ELEMENTS WOULD UNDOUBTEDLY PLAY LARGE PART IN SILISTRA IMPLEMENTATION. GOB HAD MADE PROPOSALS TO LIMITED OFFICIAL USE

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PAGE 02      SOFIA 02698 02 OF 02 220652Z

GLOBE OF JOINT ENGINEERING UNIT FOR PROJECTS IN BULGARIA AND IN THIRD COUNTRIES AND OF JOINT MARKETING COMPANY FOR BULGARIAN AGRICULTURAL PRODUCTS.

9. OTHER BUSINESS PROSPECTS. LUKANOV SAID GOB MAKING "GLOBAL REVIEW" OF US/BULGARIAN COMMERCIAL RELATIONS, CONSISTENT WITH FYP, IN PREPARATION FOR SPRING BULGARIAN/US JOINT ECONOMIC COUNCIL MEETING, UNDER DIRECTION OF FOREIGN TRADE DEPUTY MINISTER KHRISTOV. (DEPARTMENT MAY WISH TO INFORM MACPHUN OF US CHAMBER OF COMMERCE.) PENDING COMPLETION OF THAT REVIEW HE PREFERRED NOT TO COMMENT ON OTHER FAIRLY LARGE PENDING PROJECTS.

10. BONDHOLDERS CLAIMS. IN RESPONSE TO QUESTION LUKANOV SAID PROBLEM WOULD BE RESOLVED WHEN THERE WERE FIRMER PROSPECTS FOR SIGNIFICANT IMPROVEMENT OF OVERALL RELATIONS. ASKED TWICE TO CLARIFY THAT STATEMENT, LUKANOV FINALLY ADMITTED HE HAD MEANT GOB REALLY HAD NO INTEREST IN SETTLING THIS ISSUE UNTIL IT CAN SEE MORE CLEARLY THE PROSPECTS FOR MFN AND ACCESS TO EX-IM LOANS. AMB WARNED THAT US WOULD CONSIDER SUCH LINKAGE AS A HARDENING OF GOB POSITION ON BONDS, WHICH WOULD NOT BE CONDUCIVE TO IMPROVEMENT OF RELATIONS, PARTICULARLY SINCE BULGARIA WAS NOW ONLY ONE COUNTRY THAT HAS NOT YET SETTLED THAT ISSUE; WHEREUPON LUKANOV PROMISED TO LOOK INTO POSSIBILITY OF SENDING PRELIMINARY NEGOTIATING TEAM TO MEET WITH US BONDHOLDERS COUNCIL IN NEAR FUTURE.  
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